



Trends: Fiscal Year 2005

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City Controller
City of Houston



Trends

Fiscal Year 2005

The information in the following pages was compiled by the Controller's Office with the goal of assisting City Council Members in putting the Administration's FY05 Proposed Budget into historical perspective. The trends presented here give the Council Members a broader picture and, hopefully, will help in the budget decision-making process.

Houston's economy is beginning to show signs of improvement. Our projections for General Fund revenues for each of the fiscal years '04 and '05 show an overall increase of approximately 3.2% and 2.8%, respectively, (not including transfers) following a surprisingly strong comeback in sales tax revenue in the third quarter of FY04. FY05's increase is primarily due to continued increases in sales tax revenue and moderate growth in property tax revenue.

Our projection for General Fund revenue is \$18.2 million less than the projection in the Administration's FY05 Proposed Budget. The largest single difference is in the Intergovernmental category, where the Proposed Budget is approximately \$10 million higher than our projection. While the Proposed Budget indicates that this is additional METRO funding, we will need further clarification before we can include this in our projection. In addition, we have not included the \$5 million decrease in property tax revenue that would come from a decrease in the annual valuation growth cap (from 10% to 7%) that the Administration is proposing. Again, further understanding on how this will be accomplished is needed before we can include this decrease. Finally, the Proposed Budget includes a \$2.2 million increase in Other Fines and Forfeits that we see no explanation for at this time.

While there are changes that have occurred in all three enterprise funds, there are no real surprises in any of these funds. Aviation revenue and expenses are up due to the opening of the new runway and the new international service facility. Convention & Entertainment expenses have increased somewhat for both operations and debt with the opening of the expansion of the George R. Brown. Finally, with the restructuring in Water & Sewer, there are significant differences in how the funds will flow, but not significant net differences in the overall revenues. While operating revenues in Water & Sewer are projected to increase significantly primarily due to the rate increase, non-operating revenues have decreased, leaving total revenues fairly flat for the year. On the expense side, we can see the \$47 million decrease in transfers for debt payments.

Summary of Graphs



The numbers on each page are from the following sources:

- ✚ FY03 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
- ✚ FY04 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) estimates.**
- ✚ The FY05 expenditures (all) are the Administration's Proposed Budget numbers.**
- ✚ The FY05 general fund revenues are the most current projections of the Controller's Office.**
- ✚ The FY05 enterprise revenue projections are from the Administration's Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

	FY00	FY01	FY02	FY03	FY04	FY05		Admin.'s	
					Controller's	Controller's		Proposed	
Revenues	Actual	Actual	Actual	Actual	Estimate	Estimate	% Change [a]	Budget	Difference [a]
Property Tax	\$ 542,777	\$ 572,432	\$ 623,100	\$ 636,028	\$ 659,000	\$ 673,827 [b]	2.25%	\$ 671,553	2,274
Industrial Assessments	17,614	16,906	15,642	15,014	14,700	14,400	-2.04%	14,406	(6)
Sales Tax	313,864	329,705	341,952	322,538	345,900 [c]	367,600	6.27%	371,548	(3,948)
Electric Franchise	73,734	87,324	91,455	76,605	76,200	76,000	-0.26%	77,384	(1,384)
Telephone Franchise	53,393	58,290	58,695	56,435	53,000	51,200	-3.40%	51,000	200
Gas Franchise	9,481	17,672	13,740	14,693	16,700	16,600	-0.60%	16,568	32
Other Franchise	10,742	12,473	11,469	12,941	14,900	15,400	3.36%	15,447	(47)
License & Permits	13,122	12,580	12,559	15,335	15,200	15,200	0.00%	15,355	(155)
Intergovernmental	14,702	8,074	20,028	23,202	20,500	20,500	0.00%	30,664	(10,164)
Charges for Services	26,353	31,020	31,560	37,422	39,300	40,500	3.05%	41,534	(1,034)
Direct Interfund Services	44,559	46,015	62,590	62,099	61,600	65,961	7.08%	65,961	0
Indirect Interfund Services	16,631	16,961	15,095	15,859	14,600	10,419	-28.64%	10,419	0
Muni Courts Fines	41,708	40,236	35,208	42,433	44,000	46,500	5.68%	47,601	(1,101)
Other Fines	2,269	2,800	2,379	2,185	2,300	2,300	0.00%	4,540	(2,240)
Interest	7,636	11,108	8,394	6,893	4,500	5,200	15.56%	5,000	200
Misc/Other	8,794	9,053	10,994	11,057	11,100	11,100	0.00%	11,939	(839)
Total	<u>\$1,197,379</u>	<u>\$1,272,649</u>	<u>\$1,354,860</u>	<u>\$1,350,739</u>	<u>\$1,393,500</u>	<u>\$1,432,707</u>	<u>2.81%</u>	<u>\$1,450,919</u>	<u>\$ (18,212)</u>
Transfer from ALP			24,100	14,100					
Transfer from Other Funds				34,440		2,000 [d]		3500	(1,500)
Disaster Recovery Fund Transfer				15,000	6,800				
Total Revenues and Transfers	<u>\$1,197,379</u>	<u>\$1,272,649</u>	<u>\$1,378,960</u>	<u>\$1,414,279</u>	<u>\$1,400,300</u>	<u>\$1,434,707</u>	<u>2.81%</u>	<u>\$1,454,419</u>	<u>\$ (19,712)</u>

[a] The "Percentage Change" column compares our FY05 projection to our current FY04 projection, while the "Difference" column compares our FY05 projection to the Proposed Budget.

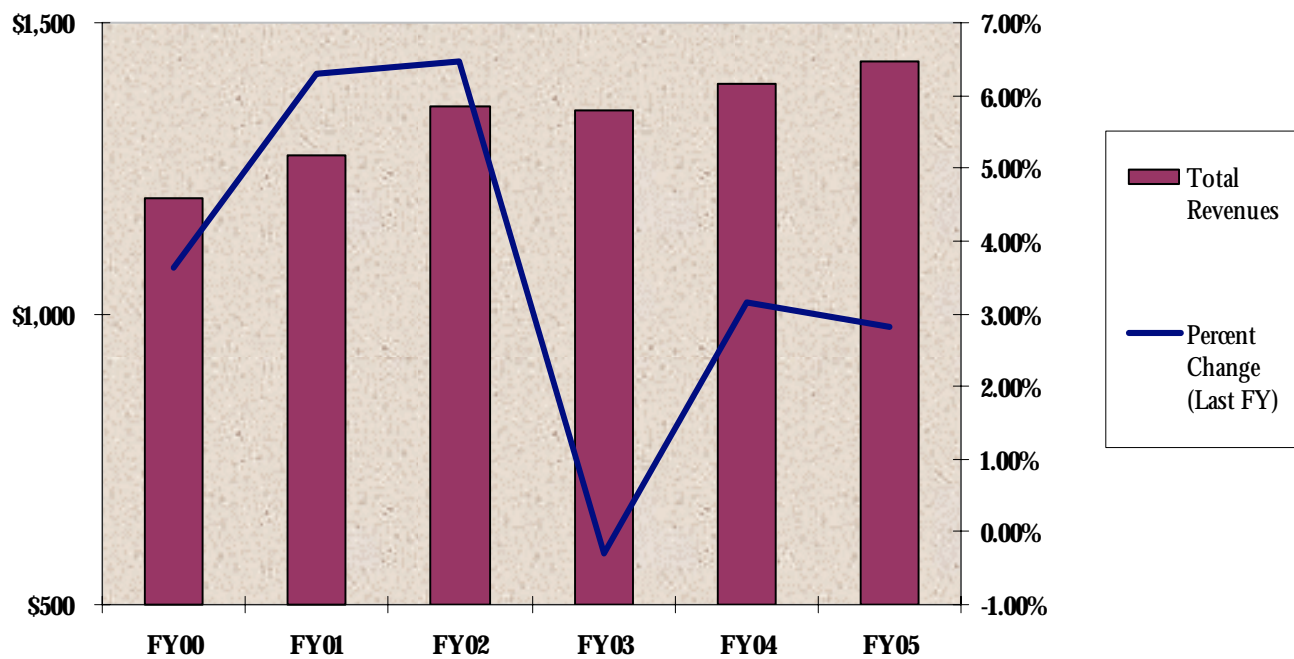
[b] Property Tax revenue is net of refunds and TIRZ payments. The Controller's FY05 estimate for Property Tax revenues assumes a \$24.2 million TIRZ payment. We have used the low end of the range of taxable values provided by the Harris County Appraisal District, and an estimated \$34.8 million in delinquent collections.

[c] Sales Tax revenue assumes a 5% increase on adjusted FY04 collections plus additional revenue for new limited purpose annexations that came on line late in FY04 and others that will come on line in the second quarter of FY05. Collection numbers were adjusted for third quarter payments in FY04 that included items not expected to be recurring.

[d] We have not included \$1.5 million of the \$3.5 million Transfer from Other Funds since we are unclear on the source of this transfer.

General Fund Revenues

(amounts expressed in millions)

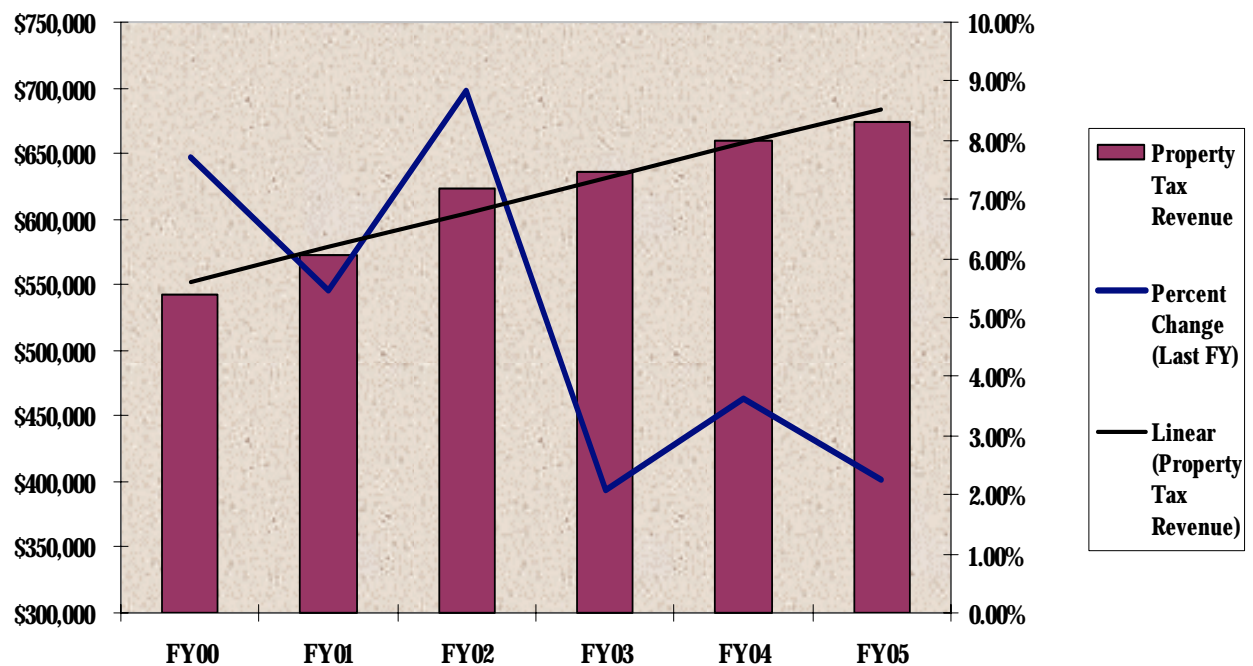


FY05 General Fund Revenue is projected to grow by \$39.2 million over our current FY04 projection. This is a 2.8% increase.

The largest projected increase is in sales tax revenue, with a \$21.7 million increase. The other most significant increase is in the property tax projection, with a \$14.8 million increase.

Property Tax Revenue

(amounts expressed in thousands)

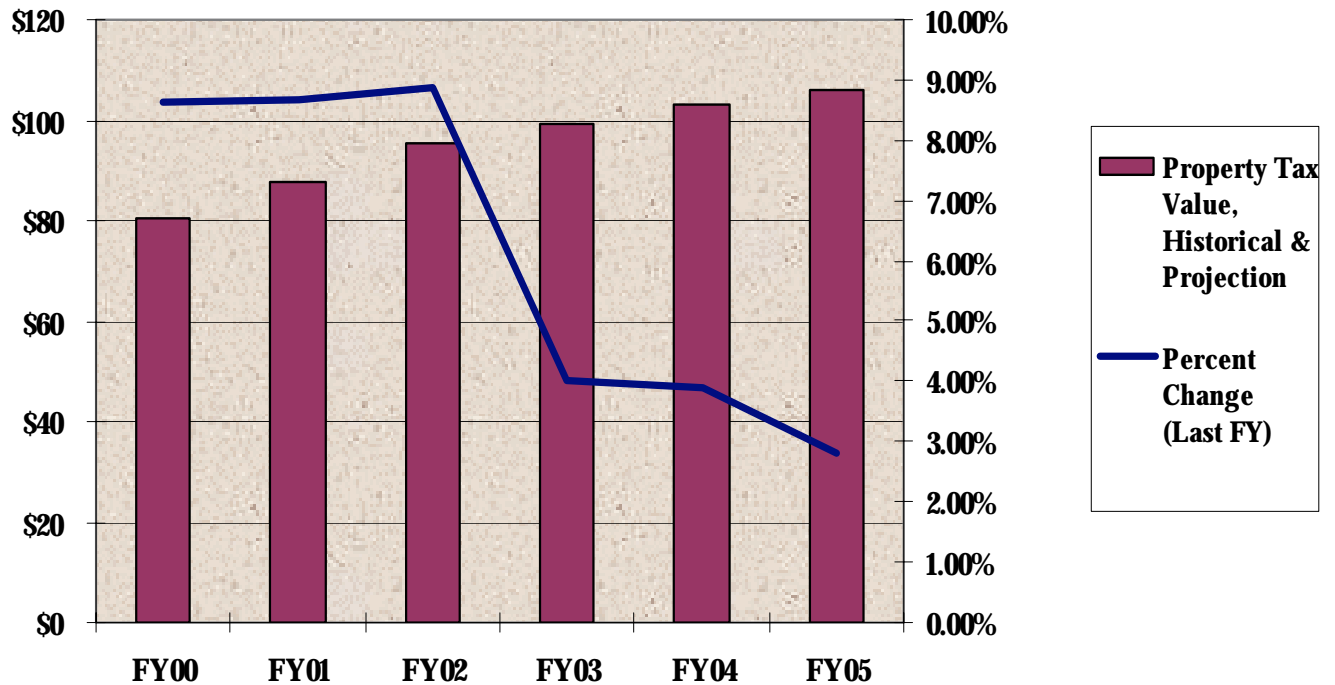


Property Tax Revenue is projected to be up 2.2% over our FY04 projection. Tax Increment Reinvestment Zone payments are projected to be up by 27%, increasing from \$19.1 million in FY04 to an estimated \$24.2 million in FY05. Our revenue projection assumes no change in the current tax rate of 65.5 cents per \$100,000 valuation.

While the Proposed Budget includes a \$5 million decrease in projected Property Tax Revenue to reflect the Administration's planned decrease in the annual valuation growth cap (10% to 7%), we have not reflected that decrease in our projections as we are unclear on how this can legally be accomplished in the upcoming budget year.

Taxable Values Historical & Forecast

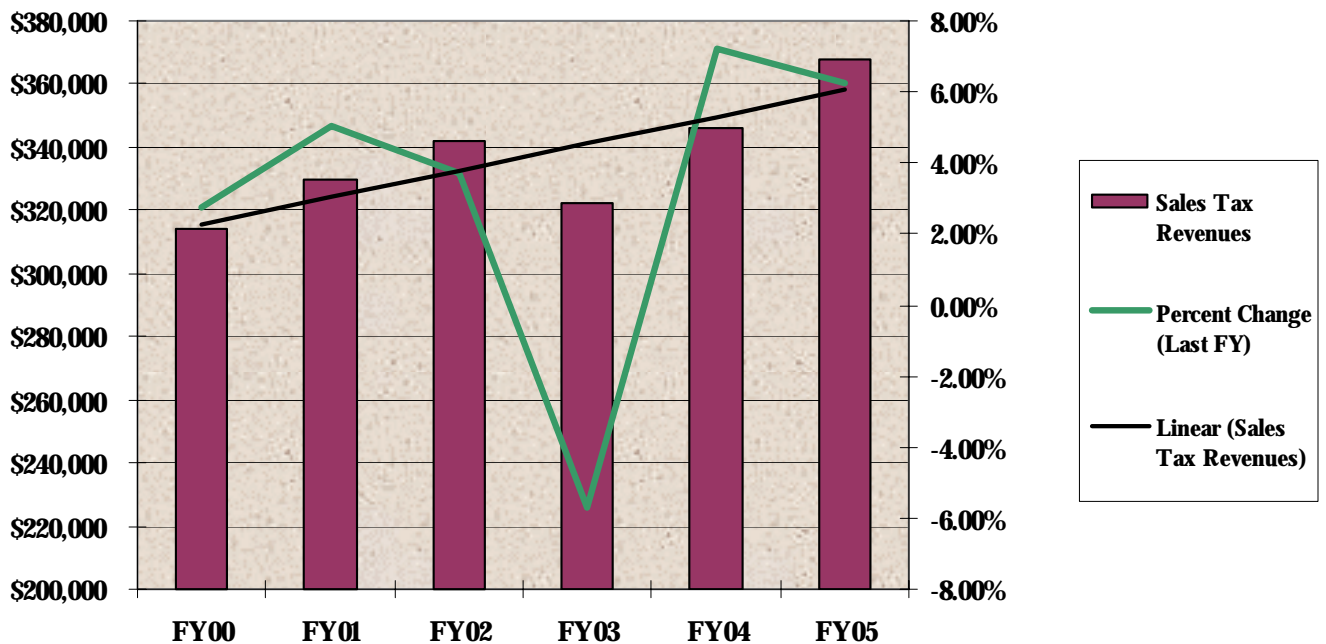
(amounts expressed in billions)



The Harris County Appraisal District provides a range (high, mid and low) of expected taxable values. The actual taxable values for the past several years have tended to be nearest to their low projections. Using their low projection for FY05, the projected increase in valuation is about 2.8%.

Sales Taxes Revenue

(amounts expressed in thousands)

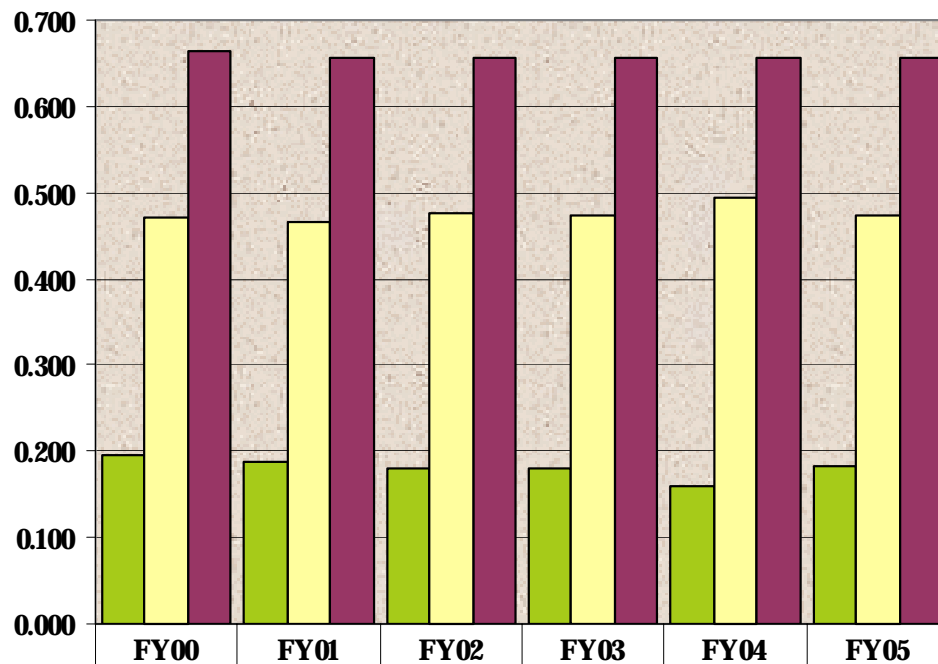


Sales Tax Revenue increased dramatically in the third quarter of FY04 and is expected to continue to show a healthy increase in the coming year. Even with this significant increase, however, it is important to note that our FY04 projection is only now exceeding FY02 Sales Tax Revenue and only by about \$4 million.

We project Sales Tax Revenue to increase by 5% over the adjusted FY04 sales tax receipts, plus we have included increases for the new limited purpose annexations that have recently come on line and others that will come on line in the second quarter of FY05. We adjusted the numbers in the third quarter of FY04 by amounts that were one time, unusual adjustments included in the State's payments to the City. Overall, we are projecting an increase of 6.3%.

Property Tax Rate

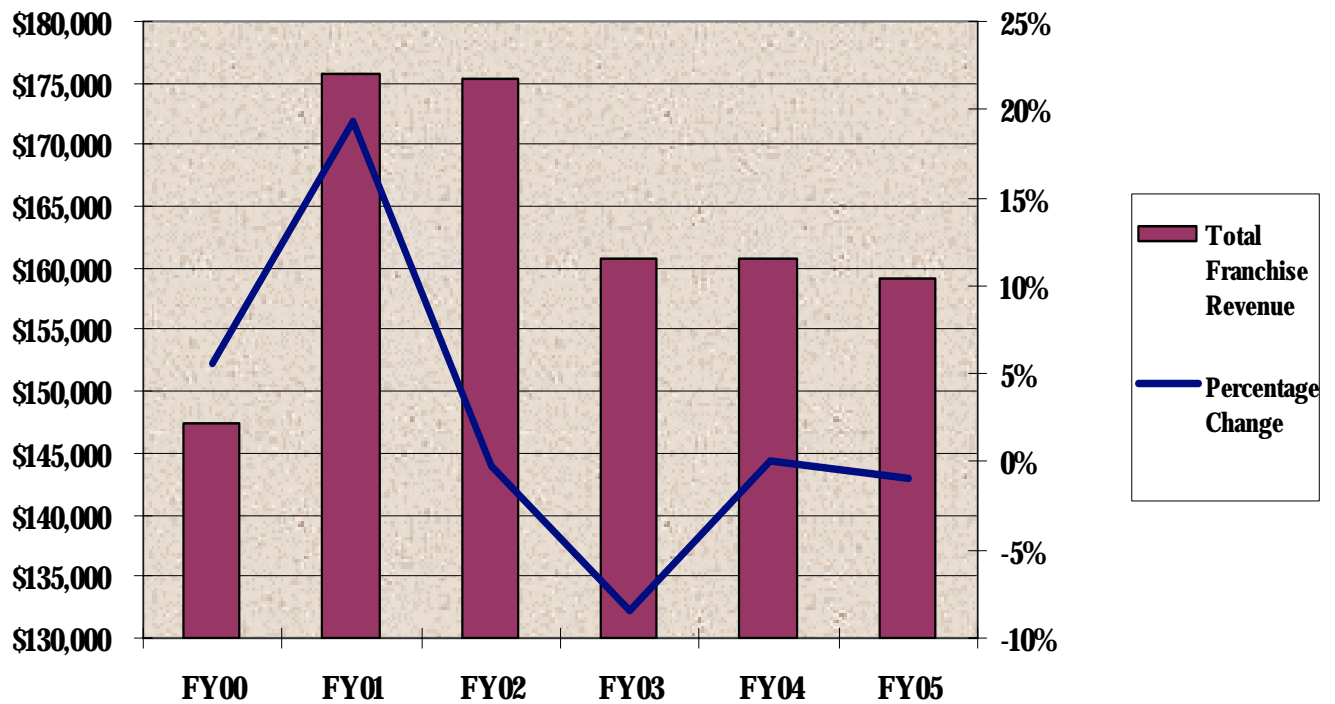
(Tax Rate per \$100 Valuation)



■ Tax Rate for Debt Service	0.19527	0.18818	0.17899	0.18041	0.16048	0.18256
■ Tax Rate for Operations	0.46973	0.46682	0.47601	0.47459	0.49452	0.47244
■ Total Tax Rate	0.66500	0.65500	0.65500	0.65500	0.65500	0.65500

Total Franchise Revenues

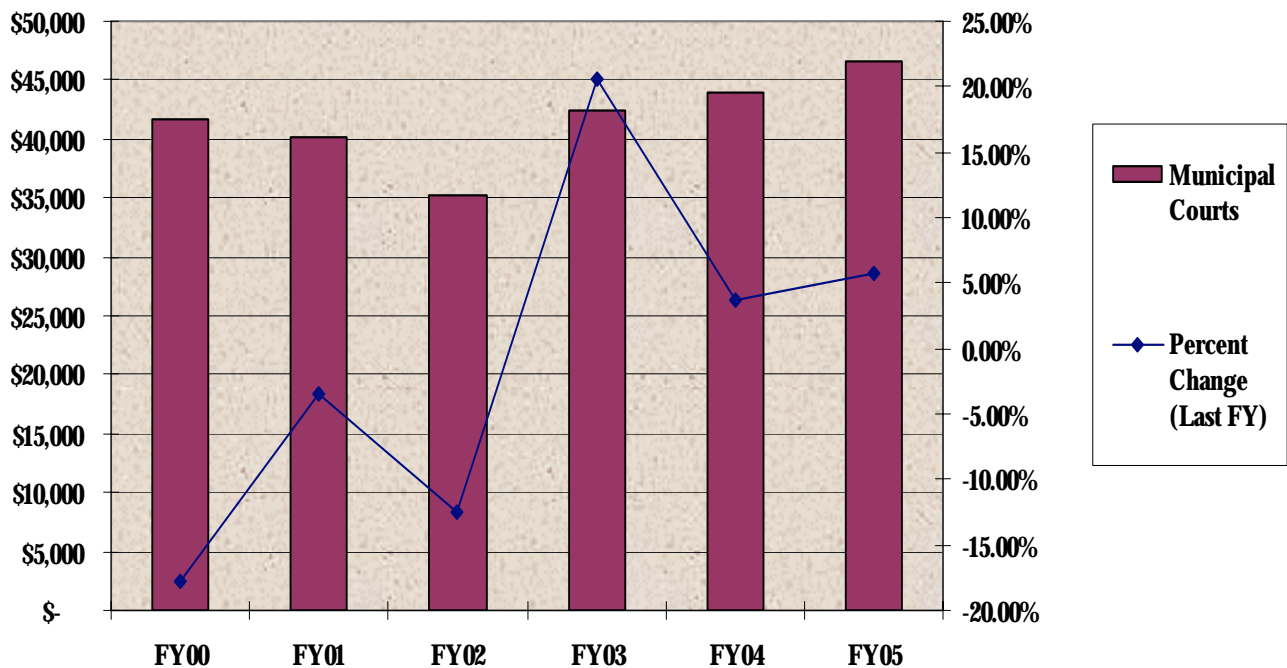
(amounts expressed in thousands)



Franchise Revenues are projected to decrease by about \$1.6 million. The most significant change continues to be a downward trend in Telephone Franchise Revenues.

Municipal Courts Revenues

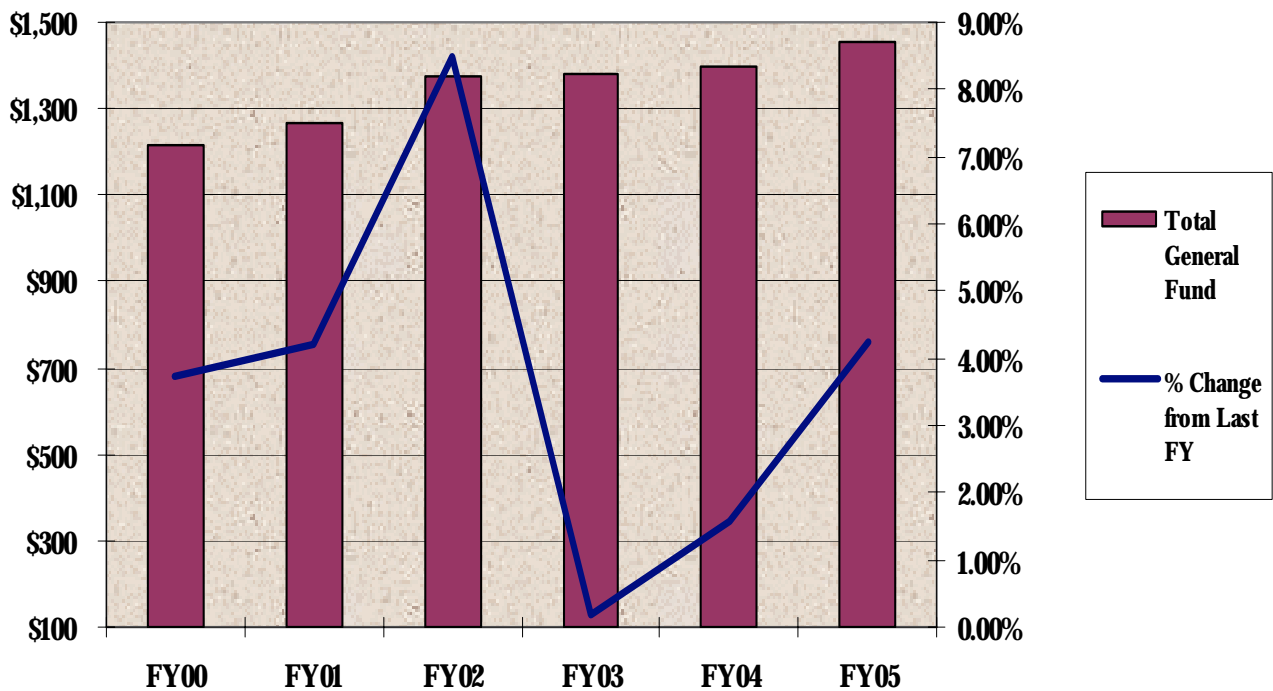
(amounts expressed in thousands)



Municipal Courts Revenues continue to be difficult to predict. However, given the planned implementation of new technology in the Municipal Courts Department, we are projecting an increase of \$2.5 million, 5.7% over FY04 revenues.

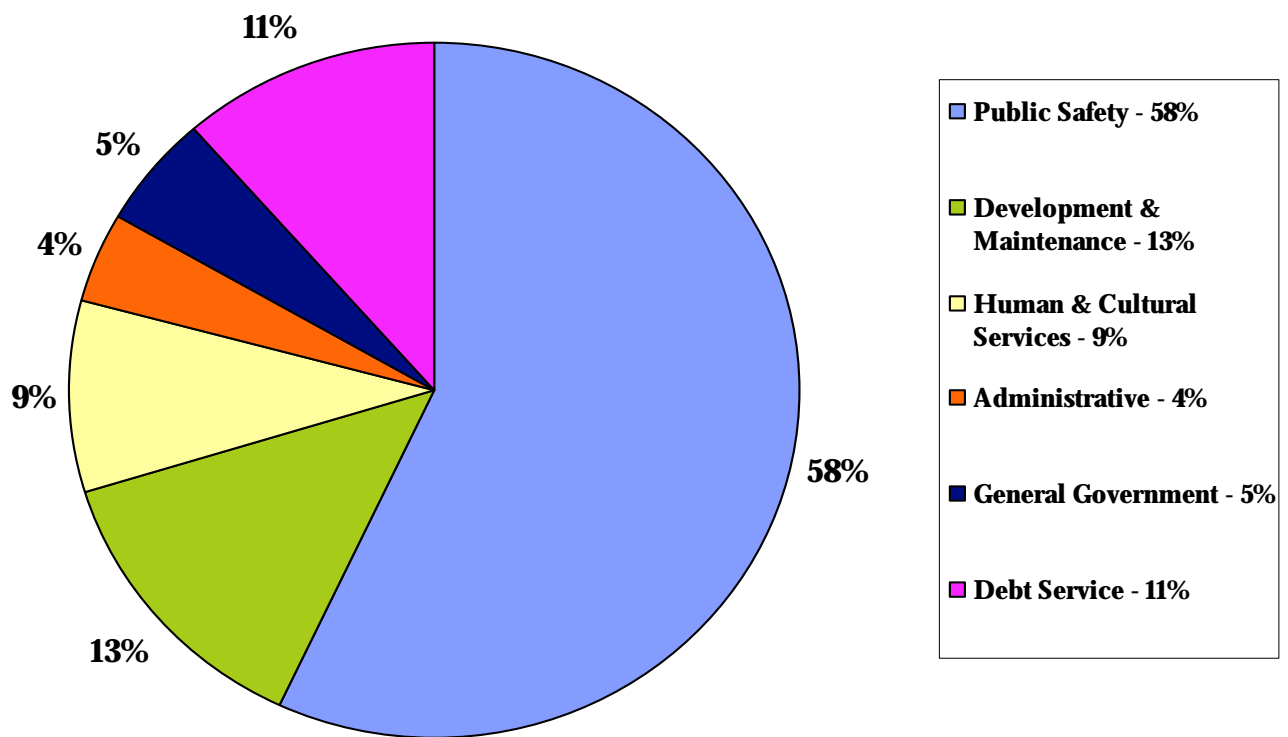
General Fund Expenditures Budget

(amounts expressed in millions)



The General Fund Expenditures budget is up by 4.2%, an increase of \$59 million over our FY04 estimated expenditures. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

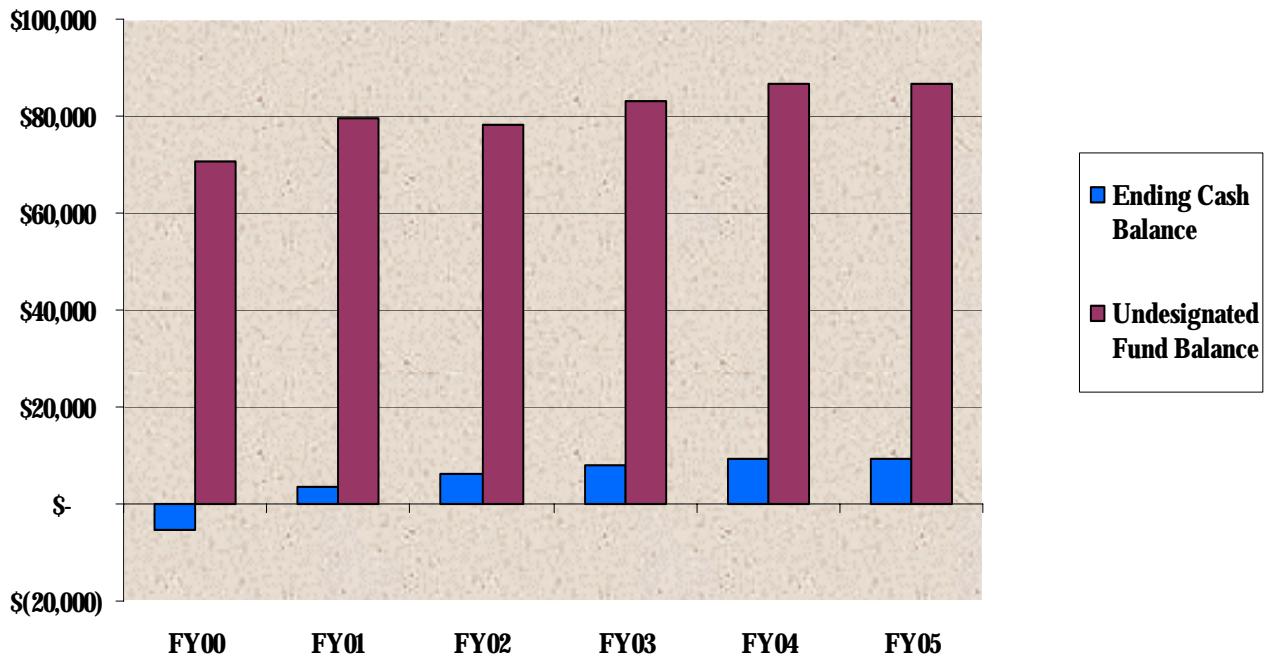
General Fund Expenditures Percent by Function for 2005



The Administration has estimated that Public Safety will account for 58% of General Fund expenditures in FY05, up from 55% in FY04.

Cash vs. Fund Balance General Fund

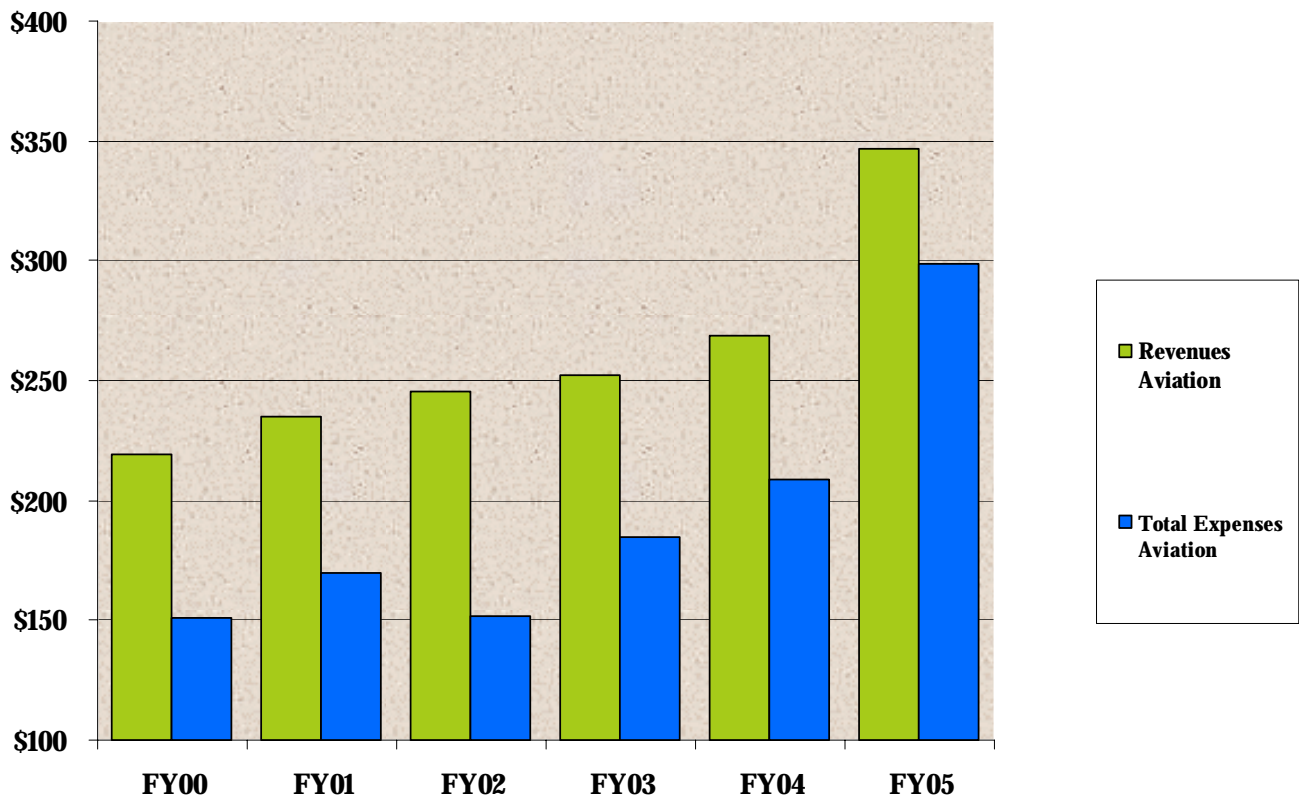
(amounts expressed in thousands)



Undesignated fund balance has remained relatively stable, but consists primarily of non-cash items (primarily receivables for sales tax and franchise fees). This does not include the \$20 million in cash for the Rainy Day Fund.

Aviation Revenues & Expenses

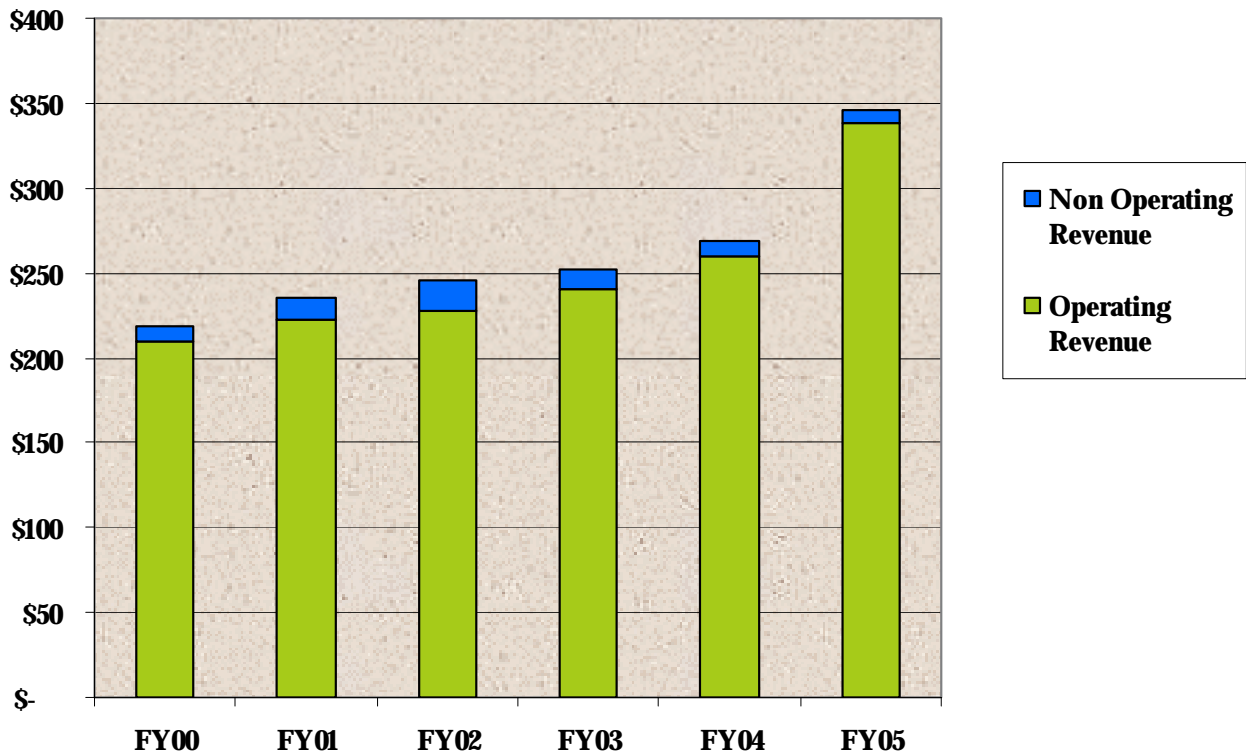
(amounts expressed in millions)



Revenues and expenses are projected to rise significantly in FY05. The increase in both revenues and expenses is the result of a completed runway and new international service facility. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Aviation Revenues

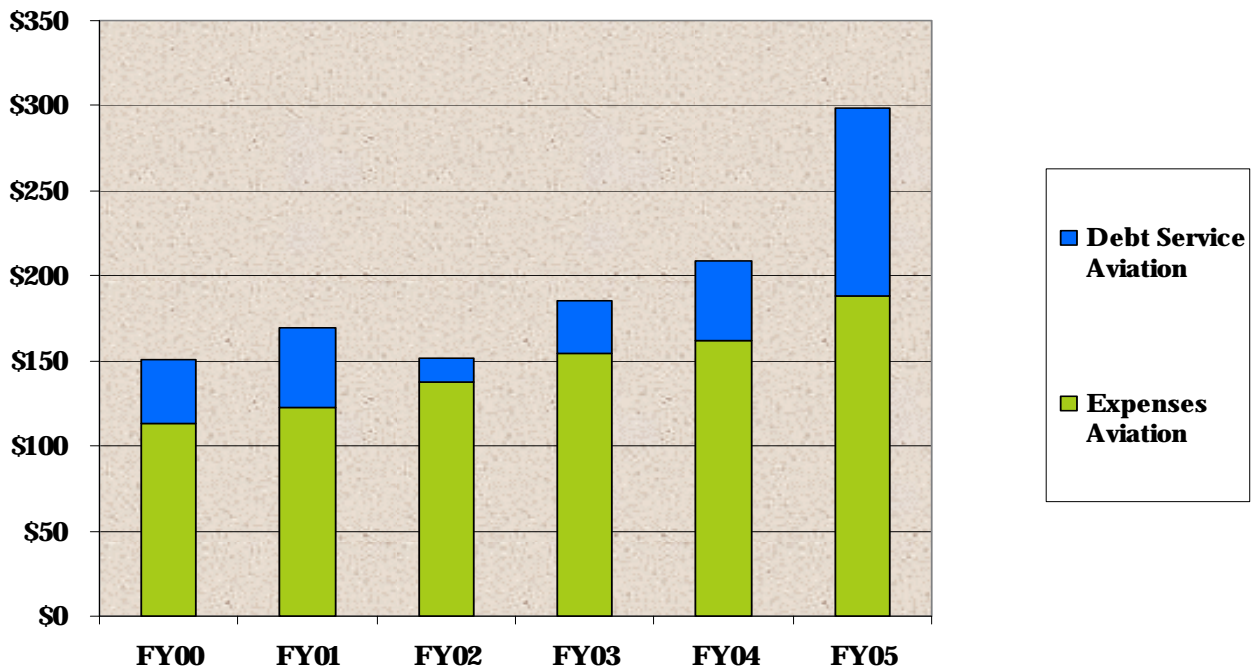
(amounts expressed in millions)



Operating revenues have seen a steady increase for FY00 through FY04. Airport revenues are expected to increase above this trend (approximately 28%) in FY05 due to the completed construction of a new runway as well as an international service facility. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Aviation Expenses

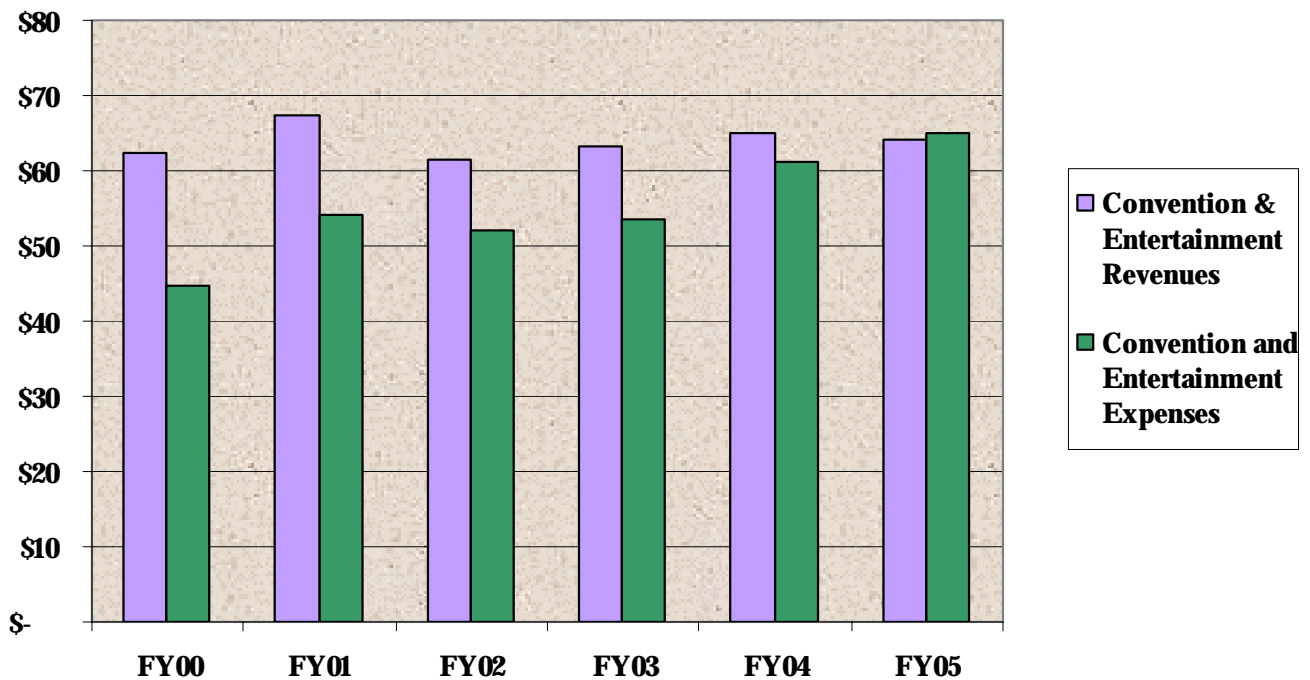
(amounts expressed in millions)



Operating expenses will increase by 17% in FY05. While debt service is also projected to rise significantly from the previous levels shown, the additional operating revenues are expected to help reduce debt service in FY05. Federal Grants were applied to decrease debt service in FY03 and FY04. To the extent available, additional grants may be able to reduce debt service in FY05. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Convention & Entertainment Revenues & Expenses

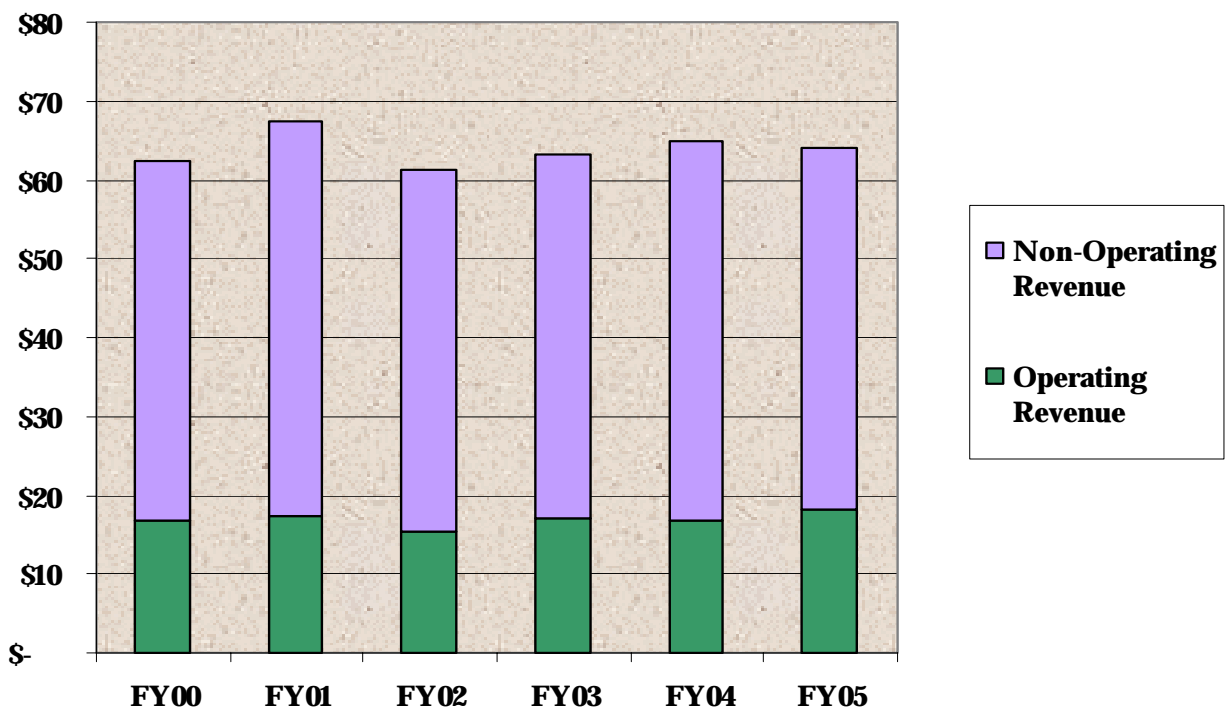
(amounts expressed in millions)



The anticipated decline in FY05 margins is primarily due to increased debt service for the expansion of the George R. Brown and various increases to operating expenses. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Convention & Entertainment Revenues

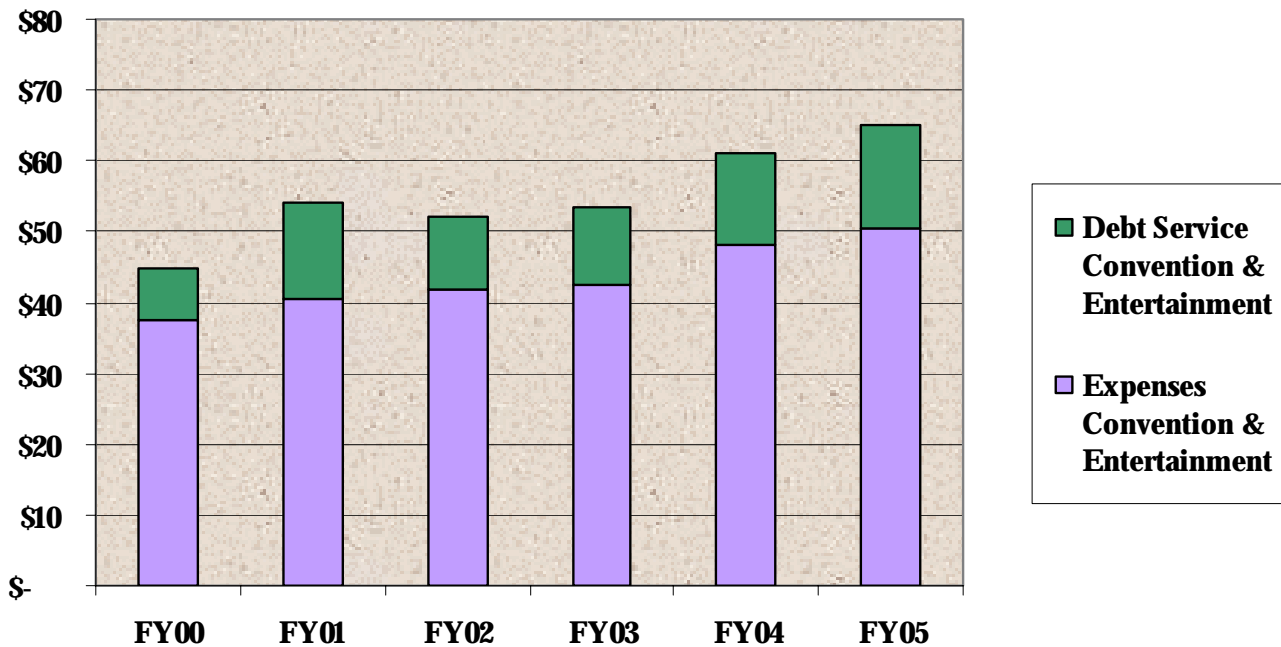
(amounts expressed in millions)



Convention & Entertainment total revenues are primarily generated from Hotel Occupancy Taxes reported as nonoperating revenues, and with parking and facility rentals reported as operating revenues. Both operating and non-operating revenues have remained relatively constant from year to year. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Convention & Entertainment Expenses

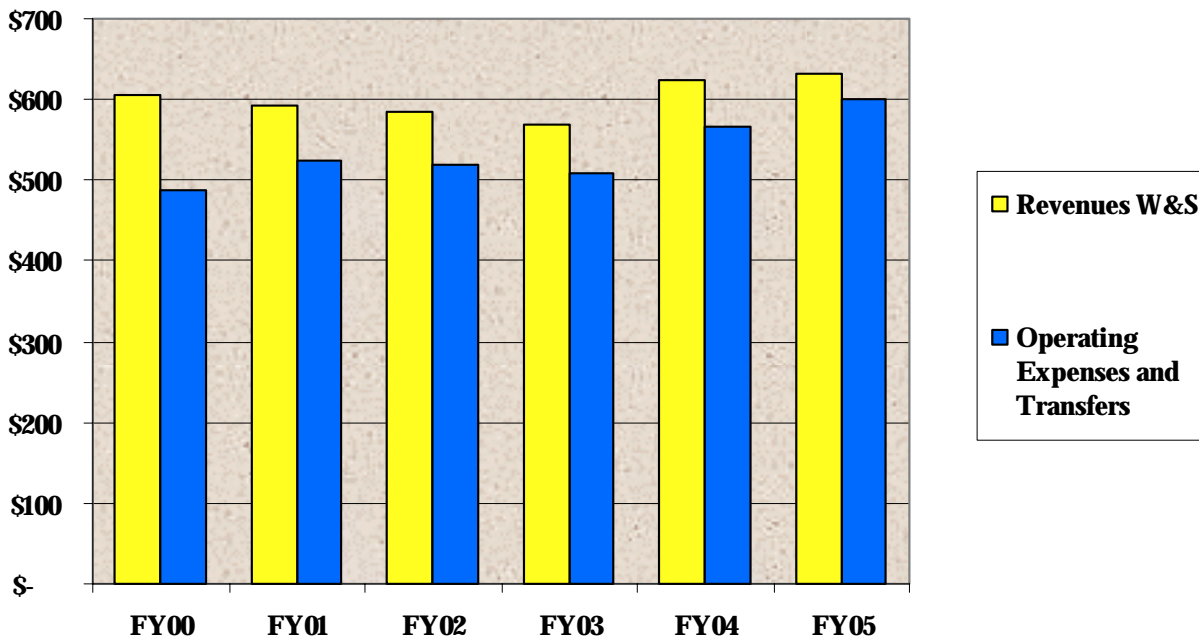
(amounts expressed in millions)



Convention & Entertainment expenses continue to gradually increase. The George R. Brown expansion project was successfully completed and adjoined to the Hilton-Americas Houston hotel in FY04. As a result, relatively small increases occurred in both debt service and other expenses. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Water & Sewer Revenues and Expenses

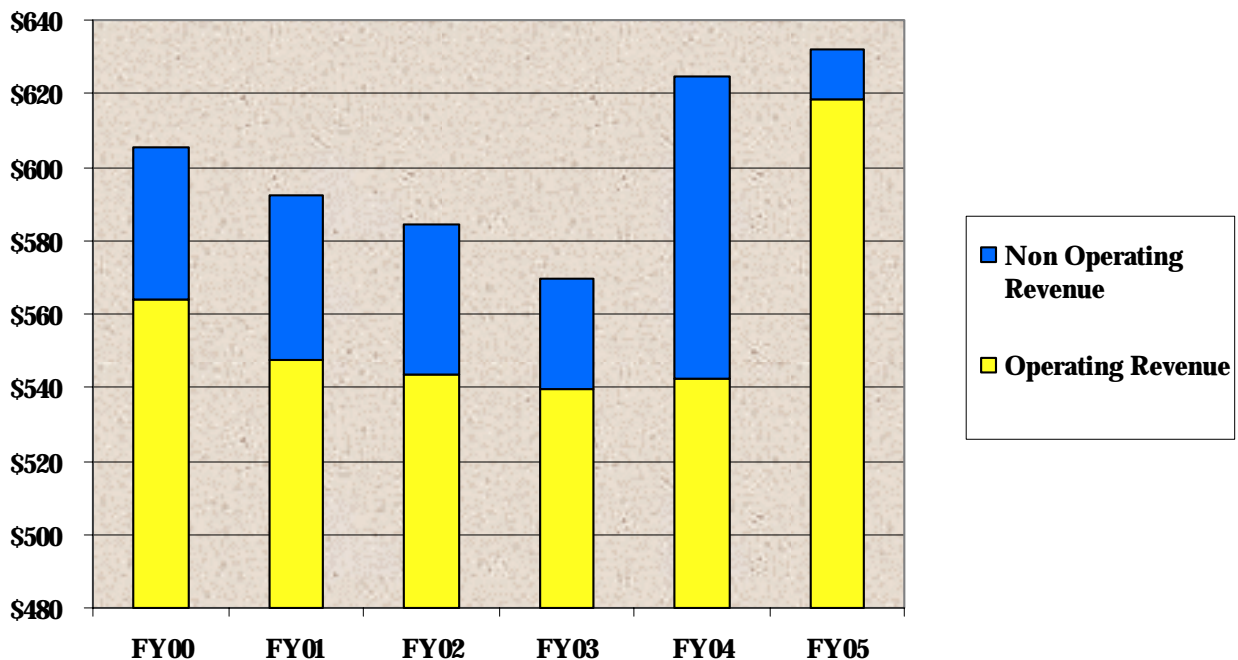
(amounts expressed in millions)



All revenue for Water and Sewer is deposited into the Water and Sewer System Operating Fund (701). Beginning in FY05, excess funds from 701 will be transferred to the Combined Utility System Operating Fund (702). These excess funds will be used to make the Debt Service payments on newly issued system debt. Any excess funds in fund 702 will be transferred to the Combined Utility System General Purpose Fund (708), which may be used for drainage and any lawful system purpose. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Water & Sewer Revenue

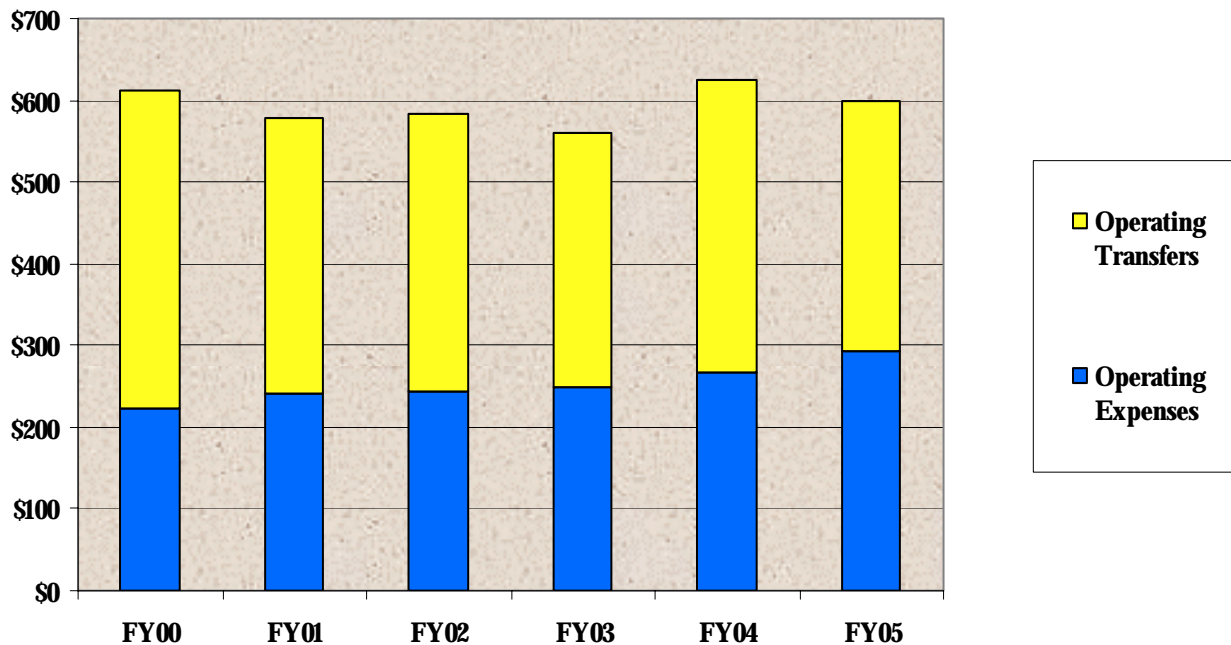
(amounts expressed in millions)



The Water & Sewer System operating revenue budget is up by 14% over current FY04 projections due to the 9.7% increase in water and sewer rates and the addition of new customers. However, non-operating revenues are expected to decrease due to less investment income and because annual payments will cease from the North and West Water Authorities. These Water Authorities have prepaid their City obligations in FY04. These numbers are the Administration's projections, not numbers generated by the Controller's Office.

Water & Sewer Operating Expenses by Category

(amounts expressed in millions)



Water and Sewer Operating expenses will show normal growth. Operating transfers, however, will show a decrease of \$47 million for Debt Service payments due to the recent debt restructuring. These numbers are the Administration's projections, not numbers generated by the Controller's Office.